Attachment 2

WILSHIRE

Rosalind M. Hewsenian
Managing Director

November 17, 2005

Mr. Mark Anson
Chief Investment Officer
California Public Employees' Retirement System
400 P Street
Sacramento, CA 95814

Re: Dollar Denominated Fixed Income Short Duration Investment Policy

Dear Mark,

You requested Wilshire's opinion with respect to Staff's proposed revision of the Dollar-Denominated Fixed Income Short Duration Investment Policy. These changes affect the policies for both the High Quality LIBOR Fund and the Short Duration Fund. Wilshire believes that the changes are appropriate, reflect an adaptation to the changing short-duration fixed income environment and provide staff with the necessary flexibility to manage short duration assets. Wilshire supports Staff's recommended changes to the policy.

Discussion

The three primary changes to this policy are 1) a benchmark change from a LIBOR-based benchmark to a Fed Funds-based benchmark, 2) revisions to the policy guidelines and 3) the addition of various swap products. While many of the revisions to the guidelines are designed to add clarity to the policy, others expand the flexibility of Staff in pursuing its benchmark.

First, the change from a LIBOR-based benchmark to a Fed Funds-based benchmark reflects the current state of the market as many liquid investments trade at a negative spread to LIBOR. By continuing to use a LIBOR based benchmark, the portfolio manager may be forced to reach for return in order to keep pace. Wilshire believes that a Fed Funds based benchmark is more reflective of the short duration opportunity set.

Second, several changes expand the flexibility of Staff in pursuing the performance benchmark. Many of these reflect the updated opportunity set due to changes in the market. For example, the updated policy removes the prior restrictions on home equity loans and manufactured housing loans as these markets have matured since the policy was first written. Additionally, several of the limits placed on various fixed income categories, such as issues from a single AAA-rated issuer with maturities greater than one day and issues from a single non-AAA-rated issuer with maturities greater than one day, have been increased (from 5% to 10% and from 2% to 5%, respectively). While this would allow for additional concentration in the portfolio, Wilshire believes this risk is mitigated by the short-term, high quality nature of the issues. Furthermore Collateralized Debt Obligations, Collateralized Loan Obligations and Collateralized Mortgage Obligations would be allowed in the Short Duration Fund. These additional instruments may serve to further diversify the portfolio.

Next, the policy allows for investment in various swap products: total return swaps, index swaps, credit default swaps and interest rate swaps. These vehicles are efficient means for quickly replicating exposure to the short-term fixed income market and can be used to maintain exposure while additional investments are being made.

Last, it is also important to note what is not changing in the policy. The option adjusted duration is still limited to ninety days for the High Quality LIBOR Fund and 180 days for the Short Duration Fund. Non-investment grade securities, tobacco company investments and private placements are expressly prohibited in each fund. Short selling, true economic leverage and speculation remain prohibited.

Conclusion

The Staff-proposed changes to the Dollar-Denominated Fixed Income Short-Duration Investment policy allow greater flexibility in the method of pursuing appropriate levels of return for short duration funds. While some additional concentration is allowed, Wilshire believes that the proposed limits appropriately manage the limited default risk contained in the Short-Duration portfolio. However, this additional concentration must be monitored and managed as the potential returns in this segment are dwarfed by the potential for loss in the case of a default.

Should you require anything further, please do not hesitate to contact us.

Sincerely,